

Mexico's economical crisis, facts and remedies

[Economics](#)



Mexico is the most advanced and developed nation in the Latin America, with a population over 96 million and per capita income about \$3970 USD, it's income ranges to the upper middle class in the Latin America. During the 60s and 70s the GDP grew by 3.5% annually, but then the crisis of 80s completely reversed the process and the whole Mexican economy went upside down followed by the 90s crisis which pushed back the GNP of the country to the 50's level. In this paper we will discuss the GDP increase and decrease of the Mexican economy facts of the crisis of 80s and 90s and GNP exchange crisis and inflation, debating about the factors involving in the crisis and discussion the ways the problem could be solved and presenting some suggestions about it.

Sudden Collapse in GDP Growth; Why?

As discussed in the introduction the data shows that during the seventh and eighth decade of the last century the GDP growth of Mexico showed a mean 3.5% annually growth, but after the 84 crisis the GDP growth shrank to 0.5%. This sudden collapse has aroused suspicions about the credibility of the Mexican claim of 3.5% GDP growth annually. GDP does not measure output reliably because it includes not only the final output produced by an economy's market, but also transactional activities, which are intermediate to production. (Wallis and North 1986; North 1987) Governments spend a large amount of money on National Defense, Justice, Social Reforms and enforcing regulations.

The transactional activities regarding these issues are intermediary in nature but are included in the standard computation of GDP. During the last three decades preceding the 84 crisis transactional activities have varied. Due the <https://assignbuster.com/mexicos-economical-crisis-facts-and-remedies/>

change in the structure of the nation's economy i. e. the traditional agriculture trends declined and the share of manufacturing and services in the economy increased, as well as the economic interdependence.

Government's change in policies effected the transactional cost while the decreased in oil prices enhanced the process resulting the indebtedness of the government which compelled her later to take high interest loans, thus increasing inflation and the currency exchange rate became unstable . These all circumstances blew every thing out and Mexican economy was completely crushed resulting in sudden downfall of GDP.

GNP Downfall in the 90s:

In 1994 the GNP of the country fell down to its historical low as a result per capita income fell to the level of 50s and the plague ofpovertyspread all over the country leaving no one undisturbed. The main causes of this turbulence as analyzed by the economists were the demographic, environmental changes as well as the changing in the global scenario and also the emergence of NAFTA as most of the foreign investment was invested in the stock market and short term bond but all these devalued thus crushing down the peso.

The increasing poverty and the deterioratingenvironmentas well as the increasing inflation pressurized the already decomposed economy thus the weak currency faced a sudden downfall and the rate of exchange become intolerably unstable. The monetary market was panicked by the falling currency and soon every investor threw away the Mexican currency. The

GNP fell rapidly and Mexico again fell in the darkness of high interest debts, inflation and poverty.

What are the Rectifications?

What Mexico needed after these sudden shocks complete is overhauling of the economy by making it free from old and conservative rules and regulations. The government should continue the process of the privatization of state owned enterprises, especially the ejido (Community Land Owned by the Government). The Federal Labor Law also needs some thorough reforms. While the most important thing to do is the clear and of the Assets of Petroleos Mexicanos (PEMEX) what ever it is deemed by the Mexican Government as a Mexican Sovereignty or not.

A Promotion and Reconstruction bank should be created with the initial capital as \$150 billion dollars, and also the board of directors should be select among the professional and honest persons. Businesses should issue bonds of their debt for 30 years. Income tax should be reduced immediately to 20%. The government should negotiate with the United States and Canada to obliterate the taxes and tariff between the three governments thus creating a free trade market. (Valenzuela, 1999)

Conclusion:

To recover from the shocks of the turbulences and achieve a sustainable growth process the Mexican Government have to make radical changes in the economy and has to redesign it in a more appropriate way that the economy becomes adaptable to the modern economic circumstances.

Reference:

<https://assignbuster.com/mexicos-economical-crisis-facts-and-remedies/>

Marco Espinosa, Steven Russell, The Mexican economic crisis: alternative views, <http://www.frbatlanta.org/frbatlanta/filelegacydocs/Espin811.pdf>

Ricardo Valenzuela, 1999. A Prescription for Dealing with Mexico's Economic Crisis, <http://www.westga.edu/~bquest/1999/prescrip.html>

Robert A. Blecker, NAFTA, the Peso Crisis, and the Contradictions of the Mexican Economic Growth Strategy, <http://www.newschool.edu/cepa/papers/archive/cepa0103.pdf>

Wallis, J. J, D. C. North. 1986. Measuring the transaction sector in the American economy, 1870-1970. In Long-term factors in American economic growth, edited by S. L. Engerman and R. E. Gallman. Chicago: University of Chicago Press, pp. 95-161.

Deirdre Griswold, 1995 Oil, debt and Mexico's national sovereignty, In Workers World. <http://www.hartford-hwp.com/archives/46/026.html>